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Macroeconomic policy questions: international financial system and development

Report of the Second Committee*

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I. Introduction

1. The Second Committee held a substantive debate on agenda item 91 (d) (see A/58/481, para. 2). Action on sub-item (d) was taken at the 24th and 40th meetings, on 3 November and 16 December 2003. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/58/SR.24 and 40).

II. Consideration of draft resolutions A/C.2/58/L.17 and A/C.2/58/L.81

2. At the 24th meeting, on 3 November, the representative of Morocco, on behalf of the States Members of the United Nations that are members of the Group of 77 and China, introduced a draft resolution entitled "International financial system and development" (A/C.2/58/L.17), which read:

> "*The General Assembly*,
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> "*Recalling* its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled 'Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity', as well as its resolution 57/241 of 20 December 2002,
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> "*Recalling also* the United Nations Millennium Declaration, adopted by the heads of State and Government on 8 September 2000, its resolution 56/210 B of 9 July 2002, in which it endorsed the Monterrey Consensus of the

* The report of the Committee on this item will be issued in seven parts, under the symbol A/58/481 and Corr.1 and Add.1-6.

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International Conference on Financing for Development, as well as the Plan of Implementation of the World Summit on Sustainable Development ('Johannesburg Plan of Implementation'), adopted on 4 September 2002,

"*Emphasizing* that the international financial system should support sustainable development, sustained economic growth and poverty reduction, while allowing for the coherent mobilization of all sources of financing for development, including the mobilization of domestic resources, international investment flows, official development assistance, external debt relief and an open, equitable, rules-based, predictable and non-discriminatory global trade system,

"*Reiterating* the need to strengthen the leading role of the United Nations in promoting and coordinating international economic and financial cooperation for development, in accordance with the provisions of chapters IX and X of the Charter, and welcoming in this regard the growing interaction between the United Nations and the international financial and trade institutions,

"*Expressing concern* about the slow progress on the issue of participation of developing countries in decision-making and norm-setting processes of the Bretton Woods institutions and other economic and financial institutions,

"*Recognizing* the urgent need to enhance coherence, governance and consistency of the international monetary, financial and trading systems, which should be equitable, fair and inclusive in order to complement national development efforts to ensure sustained economic growth and the achievement of the Millennium Development Goals,

"1. *Takes note* of the report of the Secretary-General;

"2. *Expresses concern* about the uneven recovery of the global economy, which challenges efforts by developing countries to eradicate poverty and to ensure sustained economic growth, and stresses the importance of cooperative efforts by all countries and institutions to cope with risks of financial instability and ensure a strong and steady recovery;

"3. *Invites* developed countries, in particular major industrialized economies, to take into account the effect of their macroeconomic policies on international growth and development;

"4. *Expresses its concern* about the fact that in 2002 developing countries as a whole made net outward transfers of financial resources for the sixth consecutive year, reaching a record high of 192 billion United States dollars, and underscores the need for measures at the national and international levels to reverse this trend;

"5. *Underlines* the importance of adopting effective measures, including new financial mechanisms, as appropriate, to support the efforts of developing countries to achieve sustained economic growth, sustainable development, poverty reduction and the strengthening of their democratic systems;

"6. *Stresses* the importance of strong domestic institutions to promote business activities and financial stability for the achievement of growth and

development, inter alia, through sound macroeconomic policies and policies aimed at strengthening the regulatory systems of the corporate, financial and banking sectors, and also stresses that guidelines resulting from efforts towards international cooperation in these areas, such as those undertaken by the Basel Committee on Banking Supervision, should not undermine efforts of Member States to encourage flows of capital to developing countries;

"7. *Underlines* the importance of promoting international financial stability and reducing the excessive volatility of short-term capital flows, and takes note of the efforts undertaken to this end by the International Monetary Fund and the Financial Stability Forum, while underscoring the need to continue to enhance crisis prevention, including through: an even-handed implementation of surveillance and a sharpening of surveillance on capital markets and systemically and regionally important countries; the enhancement of precautionary support to deal with external crises; and further improvements in the transparency of statistical information on international capital flows;

"8. *Notes* the impact of financial crises and risks of contagion on developing countries and countries with economies in transition, regardless of their size, and underlines the need to ensure that the international financial institutions, including the International Monetary Fund, have a suitable array of financial facilities and resources to respond in a timely and appropriate way, in accordance with their policies, to such crises;

"9. *Notes* the importance of reinvigorating ongoing efforts to reform the international financial architecture, emphasizes that those efforts need to include the effective participation of developing countries and countries with economies in transition, and in this regard encourages the International Monetary Fund and the World Bank to continue examining the issues of the voice and representation of those countries, as provided for in the communiqués of the International Monetary and Financial Committee and the Development Committee of the Fund at their last meetings, in Dubai, on 21 and 22 September 2003, with a view to establishing a timetable leading to an early achievement of this objective, as stated in the Monterrey Consensus;

"10. *Invites* the International Monetary Fund to continue its work on quotas, with a view to ensuring that the institution has adequate resources to fulfil its financial responsibilities and to enhance the voting power, voice and participation of developing countries in this institution, and in this regard stresses that the distribution of quotas and the quota formula needs to be updated to reflect changes in the world economy, including the different contributions of countries to the world gross domestic product over time;

"11. *Emphasizes* that it is essential to ensure the effective and equitable participation of developing countries in international decision-making and norm-setting, including the formulation of financial standards and codes, and underscores the need to ensure their implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion;

"12. *Invites* the multilateral and regional development banks to continue to play a vital role in serving the development needs of developing countries and countries with economies in transition, and underlines that regional

development banks and subregional financial institutions add flexible financial support to national and regional development efforts and are an essential source of knowledge and expertise for their developing member countries;

"13. *Calls upon* multilateral financial institutions, in providing policy advice and financial support to member countries, to work on the basis of nationally owned reform and development strategies, to pay due regard to the special needs and implementing capacities of developing countries and countries with economies in transition, and to minimize negative impacts of the adjustment programmes on the vulnerable segments of society, while taking into account the importance of gender-sensitive employment and poverty eradication policies and strategies;

"14. *Reiterates* the importance of the orderly resolution of sovereign debt crises, and in this regard takes note of the efforts led by sovereign debtors and private creditors to develop a voluntary code of conduct for the resolution of sovereign debt crises, bearing in mind that such a code of conduct does not preclude emergency financing in times of crisis;

"15. *Encourages* the efforts, including those of the Bretton Woods institutions, to improve the assessment of debt sustainability in low and middle-income countries through, inter alia, the development of better tools to deal with exogenous shocks and the need to take country-specific factors into account;

"16. *Also encourages* the exploration of ways to generate innovative public and private mechanisms for financing development, without unduly burdening developing countries, and urges the International Monetary Fund to give urgent consideration to the proposal of using special drawing rights allocations for development purposes, set forth in paragraph 44 of the Monterrey Consensus;

"17. *Requests* the Secretary-General to submit a report to the General Assembly at its fifty-ninth session on the implementation of the present resolution;

"18. *Decides* to include in the provisional agenda of its fifty-ninth session, under the item entitled 'Macroeconomic policy questions', the sub-item entitled 'International financial system and development'."

3. At the 40th meeting, on 16 December, the Chairman, on behalf of the Vice-Chairman of the Committee, Henri S. Raubenheimer (South Africa), introduced a draft resolution entitled "International financial system and development" (A/C.2/58/L.81), which he submitted on the basis of informal consultations held on draft resolution A/C.2/58/L.17.

4. At the same meeting, the Committee adopted draft resolution A/C.2/58/L.81 (see para. 7).

5. After the adoption of the draft resolution, a statement was made by the representative of the United States of America (see A/C.2/58/SR.40).

6. At the same meeting, in the light of the adoption of draft resolution A/C.2/58/L.81, draft resolution A/C.2/58/L.17 was withdrawn by its sponsors.

III. Recommendation of the Second Committee

7. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

International financial system and development

The General Assembly,

Recalling its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled "Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity", as well as its resolution 57/241 of 20 December 2002,

Recalling also the United Nations Millennium Declaration,[1] adopted by the heads of State and Government on 8 September 2000, its resolution 56/210 B of 9 July 2002, in which it endorsed the Monterrey Consensus of the International Conference on Financing for Development,[2] and the Plan of Implementation of the World Summit on Sustainable Development ("Johannesburg Plan of Implementation"),[3] adopted on 4 September 2002,

Emphasizing that the international financial system should support sustainable development, sustained economic growth and poverty reduction while allowing for the coherent mobilization of all sources of financing for development, including the mobilization of domestic resources, international investment flows, official development assistance, external debt relief and an open, equitable, rules-based, predictable and non-discriminatory global trading system,

Reiterating that success in meeting the objectives of development and poverty eradication depends on good governance within each country and at the international level, and stressing that sound economic policies, solid democratic institutions responsive to the needs of the people and improved infrastructure are the basis for sustained economic growth, poverty eradication and employment creation,

Reiterating also the need to strengthen the leadership role of the United Nations in promoting development,

Welcoming the growing interaction between the United Nations and the international financial and trade institutions, consistent with the relevant provisions of the Charter of the United Nations and in accordance with related agreements,[4]

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[1] See resolution 55/2.

[2] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

[3] *Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002* (United Nations publication, Sales No. E.03.II.A.1 and corrigendum), chap. I, resolution 2, annex.

[4] Related agreements include the agreements of 15 April 1948 between the United Nations and the International Monetary Fund (United Nations, *Treaty Series*, vol. XVI, No. 108) and the United Nations and the International Bank for Reconstruction and Development (ibid., vol. XVI, No. 109).

Encouraging further progress on the issue of participation of developing countries in international economic decision-making and norm-setting processes, including those of the Bretton Woods institutions and other economic and financial institutions and ad hoc groupings, while welcoming the steps that have been taken with a view to strengthening the capacity of developing countries to participate effectively in the international financial institutions,

Recognizing the urgent need to enhance the coherence, governance and consistency of the international monetary, financial and trading systems, and the importance of ensuring their openness, fairness and inclusiveness in order to complement national development efforts to ensure sustained economic growth and the achievement of the internationally agreed development goals, including those contained in the Millennium Declaration,

1. *Takes note* of the report of the Secretary-General;[5]

2. *Recognizes* the increasing initial signs that economic activity is gradually strengthening in many economies, while noting with concern the unevenness of the recovery of the global economy, which challenges efforts of developing countries to eradicate poverty and ensure sustained economic growth, and stresses the importance of cooperative efforts by all countries and institutions to cope with risks of financial instability and ensure a strong and steady recovery;

3. *Invites* developed countries, in particular major industrialized economies, to take into account the effect of their macroeconomic policies on international growth and development;

4. *Recognizes* the concern about the fact that in 2002 developing countries as a whole made net outward transfers of financial resources for the sixth consecutive year, and underscores the need for measures, as appropriate, at the national and international levels to address this issue, while taking note of the efforts that have been made thus far to this end and of the fact that for some developing countries those transfers, at the present time, indicate positive developments in the trade balance, which are required, inter alia, for debt repayment and which allow for the purchase of foreign assets;

5. *Underlines* the importance of adopting effective measures, including new financial mechanisms, as appropriate, to support the efforts of developing countries to achieve sustained economic growth, sustainable development, poverty reduction and the strengthening of their democratic systems, while reaffirming that each country has primary responsibility for its own economic and social development and that national policies have the leading role in the development process;

6. *Stresses* the importance of strong domestic institutions to promote business activities and financial stability for the achievement of growth and development, inter alia, through sound macroeconomic policies and policies aimed at strengthening the regulatory systems of the corporate, financial and banking sectors, and also stresses that international cooperation initiatives in these areas should encourage flows of capital to developing countries;

7. *Underlines* the importance of promoting international financial stability and sustainable growth, and welcomes the efforts undertaken to this end by the

[5] A/58/369.

International Monetary Fund and the Financial Stability Forum, as well as the International Monetary and Financial Committee's consideration of ways to sharpen tools designed to promote international financial stability and enhance crisis prevention, including through an even-handed implementation of surveillance and a sharpening of surveillance on capital markets and systemically and regionally important countries, with a view, inter alia, to early identification of problems and risks and the fostering of appropriate policy responses; the provision of adequate precautionary support to deal with external crises; and further improvements in the transparency of macroeconomic data and statistical information on international capital flows;

8. *Reiterates* in this regard that measures to mitigate the impact of excessive volatility of short-term capital flows and to improve transparency of and information about financial flows are important and must be considered;

9. *Notes* the impact of financial crises and risks of contagion on developing countries and countries with economies in transition, regardless of their size, and underlines the need to ensure that the international financial institutions, including the International Monetary Fund, have a suitable array of financial facilities and resources to respond in a timely and appropriate way, in accordance with their policies, to such crises;

10. *Notes also* the importance of advancing current efforts to reform the international financial architecture, as envisaged in the Monterrey Consensus,[2] emphasizes that those efforts need to include the effective participation of developing countries and countries with economies in transition, and in this regard encourages the International Monetary Fund and the World Bank to continue examining the issues of the voice and effective participation of those countries, as provided for in the communiqués of the International Monetary and Financial Committee and the Development Committee at their last meetings, held in Dubai on 21 and 22 September 2003, and looks forward to the consideration of a road map on the issue at their next meeting, in April 2004;

11. *Welcomes* the ongoing work of the International Monetary Fund on quotas, and notes the conclusion of the Fund's Twelfth General Review of Quotas, the report on which indicated the adequacy of the current level of Fund resources and the intention of the Executive Board, during the period of the Thirteenth General Review, to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy and to consider measures to strengthen the governance of the Fund;

12. *Emphasizes* that it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes, and underscores the need to ensure their implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion;

13. *Invites* the multilateral and regional development banks and development funds to continue to play a vital role in serving the development needs of developing countries and countries with economies in transition, including through coordinated action, as appropriate, and stresses that strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, enhancing their ownership and overall efficiency, and

are an essential source of knowledge and expertise for their developing country members;

14. *Calls upon* multilateral financial institutions, in providing policy advice and financial support to member countries, to work on the basis of nationally owned reform and development strategies, to pay due regard to the special needs and implementing capacities of developing countries and countries with economies in transition and to minimize the negative impacts of the adjustment programmes on the vulnerable segments of society, while taking into account the importance of gender-sensitive employment and poverty eradication policies and strategies;

15. *Reiterates* the importance of the orderly resolution of sovereign debt crises, notes the increasing voluntary use of collective action clauses in international sovereign bonds, and takes note of the efforts led by sovereign debtors and private creditors to develop a voluntary code of conduct for the resolution of sovereign debt crises;

16. *Encourages* the efforts, including those of the Bretton Woods institutions, to improve the assessment of debt sustainability in low- and middle-income countries through, inter alia, the development of better tools to deal with exogenous shocks and the need to take country-specific factors into account;

17. *Also encourages* the consideration, of proposals to generate innovative public and private mechanisms for financing development, without unduly burdening developing countries, and the study, in the appropriate forums, of the results of the analysis requested from the Secretary-General on possible innovative sources of finance, taking note of the proposal to use special drawing rights allocations for development purposes, bearing in mind that any assessment of special drawing rights allocations must respect the Articles of Agreement of the International Monetary Fund and the established rules of procedure of the Fund, which requires taking into account the global need for liquidity at the international level;

18. *Requests* the Secretary-General to report to the General Assembly at its fifty-ninth session on the implementation of the present resolution;

19. *Decides* to include in the provisional agenda of its fifty-ninth session, under the item entitled "Macroeconomic policy questions", the sub-item entitled "International financial system and development".